

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CIAE-00 COME-00
EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00
XMB-02 OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01
NSC-05 SS-15 STR-04 CEA-01 PA-01 PRS-01 HEW-04
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FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC PRIORITY 1557

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USOECD

E.O. 11652: N/A

TAGS: ECON, PINR, PINT, FI

SUBJECT: GOVERNMENT'S ECONOMIC PROGRAM

REF: (A) HELSINKI 1007, (B) HELSINKI 1118

1. SUMMARY: THE GOVERNMENT IS EXPECTED TO ANNOUNCE JUNE 23 ITS PROGRAM FOR ECONOMIC REVIVAL. INITIAL INDICATIONS ARE THAT THE PROGRAM WILL BE AN ASSORTMENT OF TEMPORARY REDUCTIONS OF BUSINESS TAXES AND CONTRIBUTIONS TO SOCIAL SECURITY, GOVERNMENTAL OVERSEAS BORROWING OF FMK 1 BILLION (\$250 MILLION) OVER THE NEXT FEW YEARS FOR INVESTMENT PURPOSES, AND STATEMENTS OF GOOD INTENTION TO HOLD DOWN INFLATION AND BALANCE OF PAYMENTS DEFICITS. INDICATIONS ARE ITS SCOPE WILL BE LIMITED, IN KEEPING WITH THE LIMITATIONS THE CONTINUING INFLATION AND THE BALANCE OF PAYMENTS DIFFICULTIES IMPOSE ON GOVERNMENTAL ACTION, AND WILL FOCUS ON STIMULATING INVESTMENT AND PRODUCTION RATHER THAN CONSUMPTION AND UNEMPLOYMENT RELIEF.

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IT APPEARS TO REFLECT ASCENDENCY OF ECONOMIC MODERATES IN NEW GOVERNMENT. END SUMMARY.

2. PRESS REPORTS INDICATE THAT PROGRAM INCLUDES A NUMBER OF MODEST TEMPORARY TAX RELIEF MEASURES FOR COMPANIES AND TEMPORARY REDUCTIONS OF COMPANIES' SOCIAL SECURITY CONTRIBUTIONS. PLANT CONSTRUCTION INVESTMENT WOULD BE EXEMPTED TEMPORARILY FROM

TURNOVER TAXES DURING THE PERIOD OF AUGUST 1, 1977 - MARCH 31, 1978. HEALTH INSURANCE AND CHILD ALLOWANCE CONTRIBUTIONS OF EMPLOYERS WILL BE LOWERED TEMPORARILY BY 0.5 PERCENT AND PENSION CONTRIBUTIONS BY 1 PERCENT. THE PROGRAM REPORTEDLY WILL ALSO PROVIDE FOR REDUCTION OF TAXATION ON PERSONAL INVESTMENT IN STOCKS, AND FOR INCREASED EXPENDITURE ON EXPORT PROMOTION. THE ONE MEASURE APPEARING IN PRESS REPORTS THAT WILL AIM AT STIMULATION CONSUMPTION DIRECTLY IS RAISING OF CHILD ALLOWANCES BY 10 PERCENT ON OCTOBER 1 AND BY AN ADDITIONAL 5 PERCENT ON APRIL 1, 1978.

3. TO FINANCE ITS PROGRAM, THE GOVERNMENT PLANS TO BORROW UP TO FMK 1 BILLION (\$250 MILLION) FROM FOREIGN CAPITAL MARKETS OVER THE NEXT FEW YEARS. PART OF THE PROCEEDS WOULD BE CHanneLED TO COMMERCE AND INDUSTRY THROUGH THE FACILITIES OF THE GOVERNMENT'S INVESTMENT FUND (INRA) AND THE DEVELOPING AREA FUND. PART WOULD BE USED TO INCREASE EQUITY OF STATE-CONTROLLED COMPANIES BY ABOUT FMK 30 MILLION (\$7.5 MILLION). IN ADDITION, THE LOAN CEILING OF THE GOVERNMENT'S INVESTMENT FUND WILL BE RAISED AND ABOUT FMK 50 MILLION (\$12.5 MILLION) DISTRIBUTED THROUGH IT TO SMALL AND MIDDLE-SIZED INDUSTRIES. ABOUT FMK 300 MILLION (\$75 MILLION) WILL BE CHanneLED THROUGH THE LOAN FACILITIES OF THE DEVELOPING AREA FUND.

4. THE ADDITION TO REDUCTION OF UNEMPLOYMENT, REDUCTION OF LIMITED OFFICIAL USE

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THE CURRENT ACCOUNT DEFICIT TO TOLERABLE LIMITS IS A MAJOR OBJECTIVE OF MEDIUM-TERM ECONOMIC POLICY. THE GOVERNMENT HAS ESTABLISHED THE GOALS OF LIMITING THE COMBINED CURRENT ACCOUNT DEFICIT OF 1977 AND 1978 TO FMK 5 BILLION (\$1.25 BILLION, COMPARED WITH FMK 12.4 BILLION (OVER \$3 BILLION) OVER THE LAST TWO YEARS. THE GOVERNMENT INTENDS TO REDUCE INFLATION AND MAINTAIN AUSTERITY IN ITS OWN EXPENDITURES AND THOSE OF LOCAL GOVERNMENTS. THE MAIN IMPACT OF THE ECONOMIC REVIVAL PROGRAM, MUCH OF WHICH WILL REQUIRE LEGISLATION WHEN PARLIAMENT RESUMES IN THE FALL, WOULD BE CONCENTRATED ON NEXT WINTER. THE GOVERNMENT ASSUMES THAT THE CURRENT SLUGGISH ECONOMIC RECOVERY WILL PEAK IN 1979.

5. COMMENT: WHILE THE PARTICULARS OF THE PROGRAM WILL UNDOUBTEDLY DIFFER IN SOME RESPECTS FROM THE ABOVE INFORMATION GATHERED FROM PRESS REPORTS, THE PROGRAM CLEARLY WILL BE RATHER LIMITED IN SCOPE, AND APPEARS TO INVOLVE NO SIGNIFICANT EXTENSION OF GOVERNMENTAL INVOLVEMENT IN ECONOMIC DECISION-MAKING. IT DOES NOT PRETEND TO CONSTITUTE A SOLUTION TO THE CURRENT DIFFICULTIES; THE GOVERNMENT SIMPLY IS NOT IN A POSITION TO FOOT THE BILL. UNEMPLOYMENT WILL BE RATHER HIGH BOTH IN 1977 AND 1978 EVEN THOUGH IT MAY NOT REACH THE PEAK FIGURES OF

LAST WINTER. A BANK OF FINLAND OFFICIAL ADMITTED PRIVATELY THAT
ONCE REVIVAL REALLY GETS UNDER WAY THE BANK OF FINLAND FORESEES
THE NEED TO FOLLOW A MONETARY POLICY THAT WILL CURTAIL THE RATE
OF EXPANSION. THE GOVERNMENT'S PLANS TO BORROW UP TO FMK 1
BILLION FROM EXTERNAL MARKETS DO NOT APPEAR EXCESSIVE AS A
PROPORTION TO NET NATIONAL DEBT OF ABOUT FMK 24 BILLION. (WE
UNDERSTAND FROM A CLOSE ASSOCIATE OF BANK OF FINLAND GOVERNOR
KOIVISTO THAT LATTER IS PLEASED WITH
THE CHARACTER OF THE PROGRAM AFTER UNEASINESS OVER THE INITIAL
ECONOMIC POLICY ANNOUNCEMENT WHEN THE CURRENT GOVERNMENT WAS
FORMED IN MID-MAY.) THE PROGRAM IS SHARPLY AT VARIANCE WITH THE
COMMUNIST PRESCRIPTION OF MEASURES AIMED DIRECTLY AT STIMULATING
CONSUMPTION AND RELIEVING UNEMPLOYMENT. REACTIONS ONCE THEY COME
OF THE MAJORITY AND MINORIT FACTIONSOF THE COMMUNIST PARTY (SKP)
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MAY BEAR ON PROSPECTS FOR CONTINUED PARTICIPATION OF
THE MAJORITY FACTION INGOVERNMENT.
HOUSTON

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